

Opportunities and Challenges of Investment Along a Supply Chain: The Case of Selected Investment Areas of Ethiopia

Bekele Reta (Asst Prof) Tessema Teshome (MBA)

Department of Logistics and Supply Chain Management, College of Business and Economics, Arsi University, Arsi, Ethiopia

Abstract

The purpose of this study was to identify salient opportunities and challenges of investment and investors' perception towards the same in Ethiopian selected investment area- Arsi. It focused on manufacturing, agro-industry and agricultural investment operations. Explanatory research design was used along with primary and secondary source of data gathered via questionnaire, Focus Group Discussion and interview. A combination of sampling techniques (cluster, purposive and random) and data analysis tools including Explanatory Factor Analysis and Multi variant linear regression were utilized. According to the Factor Analysis and regression result, opportunity related variables which have strong association with investors' perception and appeared significant at 95% confidence level include: labor availability, large market size, potentially growing investments alternatives, availability of raw material, transportation service, and commercial convenience of local culture. Whereas, challenge related variables are inaccessibility of investment sites, power interruption, vulnerability to social unrest, poor labor commitment, disintegrated policy implementation system, lack of community sense of belongingness of investments, and absence of entrepreneurial orientations of investors. Unique to the developed conceptual framework of the study, high interest rate, investors behavior, and community sense of belongingness appeared to be more significant. The salient factors have effect ranging across the Supply Chain nearly with similar magnitude which means investors engaged at any point in the Supply Chain would have similar challenges and opportunities. Therefore, an integrated and comprehensive approach is required to enhance the positive perception of investors and thereby attract more value creating investors.

Keywords: Investors' Perception, Opportunities, Challenges, Investment.

1. INTRODUCTION

Investment is an activity of employing money during the time period seeking to enhance the investor's wealth (Levišauskaitė K, 2010). Malik M (2008) describes investment as every asset that an investor owns or controls, directly or indirectly, that has the features of an investment: commitment of capital, the expectation of profit, and the assumption of risk. In a broader scope, the term "investment" means every kind of asset invested by investors of one party in accordance with the laws and regulations of the other Party in the territory of the latter, and particularly, though not exclusively, includes: movable and immovable, stocks, claims to money, intellectual property rights and business concessions conferred by law (UNCTAD, 2011).

According to Levišauskaitė (2010), an investment is based upon the analysis and its main goal is to promise safety of principal sum invested and to earn the satisfactory risk. Thus, one can infer that an investment operation is different from speculation which involve high level of risk emanated from the undertakings are made in unstable business environment and fluctuating markets. Thus, in order to qualify as an investment under many international Agreements, an asset must have the characteristics of an investment (Mahnaz Malik, 2008; U.S. Model Bilateral Investment Treaty, 2004).

Investments are precondition of future sustainable growth that ensure competitiveness, and maintaining our quality of life (OECD, 2015). Nevertheless, investments that contribute to the growth and development of any society lies in the ability of its citizens to identify and exploit an existing but unnoticed investment opportunities in a way very novel to expected market (Nerudeen, 2010) as cited in (Ime T. Akpan, and Sunday S., 2013). The successful exploitation of opportunities, however, requires putting capable systems into place. Yet, resources are needed for the creation of organizational form, although a rudimentary structure is necessary to generate the resources (Ime T. Akpan, and Sunday S., 2013). On the other hand, money alone cannot tackle all the impediments to investment. Rather, there is a need to have new approaches to economic policy and additional innovative ideas to make the investments more value adding (OECD, 2015). Furthermore, beyond all the possible good reasons and favorable conditions available, the investors' perception plays a great role in an effort to attract more investments (Alan S. and Gary J., 2009). The knowledge of one's own potential and investor's perception of it helps to establish the key elements of investment attraction strategy (Arvid O. I. Hoffmann, and Thomas Post (2013).

Virtually, every investor has the same basic goal- to achieve the maximum amount of investment growth at a tolerable level of risk. In order to benefit from investment endeavors, there has to be a level ground for investors so that they would focus on more value adding investment activities. To this end, Ethiopia follows an integrated development plan namely, Growth and Transformation Plan (GTP), which aims to achieve 11.2 – 14.9%

GDP growth annually as well as achieve the Millennium Development Goals and attain middle-class income status by 2025. To realize these goals, the government is investing heavily in large-scale social, infrastructural and energy projects (Department of State, 2015), National Planning Commission, 2015).

Thus, investment is mined out of available opportunities, obstructive challenges (OECD, 2015), entrepreneurial capability of citizens (Ime T. Akpan, and Sunday S., 2013), and investors' perception of the opportunities and challenges (Alan S. and Gary J., 2009). This means, a region and/or any country is supposed to be clear with the available opportunities, challenges and entrepreneurial capability along with their perception before making any effort to attract investment.

National level literatures identify tremendous investment opportunities: political and social stability, adequate guarantees and protections, abundant and trainable labour force, Wide domestic, regional and international market, macro-economic stability and growing economy, and pleasant climate and fertile soils (Geneva International Conference Centre, 2011) and (Ethiopian Investment Agency, 2013), (Deloitte & Touche, 2016), (EY, 2015). Furthermore, challenges to the private sector include foreign exchange shortages and limited access to finance, long lead-times for inputs and exports due to the current logistic infrastructure and associated high land transportation costs, and bureaucratic delays (Tiwari P, 2015), Deloitte & Touche (2016), (GIIN, 2015). Specifically, corruption challenge is emphasized as blocking wall (Transparency International's, (2014). More importantly, Ethiopian finance system is characterized by limited accessibility, less local presence of Development Financial Institutions (DFI) and absence of specialized knowledge (GIIN, 2015).

As we can see above investment opportunities and challenges discussed above are at national level. And very limited literatures are available that relate opportunities and challenges with perception of investors. However, investment opportunities and challenges are dynamic they can vary from region to region due to various factors. Therefore, this study was aimed at exploring the opportunities and challenges of investment at Arsi Zone along overall investors' perception towards the same.

1.1 Statement of the Problem

It is imperative to identify investment opportunities and challenges since Arsi Zone is evidenced as one of the areas endowed with agricultural resources in Ethiopia. Investment is an inevitable economic activity highly dependent on opportunity hunting capability of citizens and level playing plat forms; and bounded by dynamic challenges. Investment opportunities and challenges are double face: the perceived and real ones (EY, 2015). In addition, due to their very nature- time sensitivity, opportunities and challenges of investment highly vary overtime; and from one region to the other. On top this, investment opportunities and challenges would happen at different stages of the Supply Chain: upstream and downstream. Thus, *Regions that facilitate logistics and supply chain activities through investments in key infrastructure, policy refinement, and collaborative activities will attract new industry.*

On the other hand, a great deal of financial theory considers investors as rational and wealth maximisers. They are acting following the basic financial rules and base their strategy on the risk-return consideration.

Nevertheless, the level of risk investors are willing to undertake isn't the same, depending mainly on their personal attitudes towards risk (Dimitrios Maditinos, Zeljko S., and Nikolaos T, 2004).

Previous literatures focus on national investment climate and address only the opportunities and challenges which doesn't include how investors perceive these opportunities and challenges in that particular area. For instance, the investment opportunities stipulated at the study areas are among the top priority of the federal government: mineral, agriculture (horticulture, animal farming, and irrigation, vegetable), Hotel and Tourism, and manufacturing. The Zone has also relatively good infrastructure and proximity to the economic corridor of the country, which is one part of the industrial Supply Chain (Arsi Zone investment Office, 2016). Notwithstanding this, the land prepared for investment of various sectors is substantially larger than actually utilized: 45,000 htr prepared and 6, 617.65 htr, utilized. Similarly, the job opportunity created so far is 2,274 permanent and 7,314 temporary employees. There are 409 investors registering a total of 1.5 billion birr capital (Arsi Zone Investment Office, 2015). The gap observed between the plan and actual investment implies that there is a real or perceived challenge by the investors. Similarly, the said opportunities may not be perceived by investors as an opportunity.

Therefore, the investigators are motivated to explore the opportunities and challenges prevailing in Arsi Zone along the investors' perception because of the peculiar characteristics of the topic at hand calling special attention in the study area and need to measure perception as substantiated by various literatures.

1.2 Objectives of the Research and Basic research Questions

The general objective of this study was to identify the major opportunities and challenges of investment, and to explore how investors perceive the same. Specifically, it was aimed to identifying prominent opportunities and challenges that affect investors' perception of the study area. To achieve these objectives, this research has tried to answer the following Basic questions:

1. What are the Prospects of Investment across the Supply Chain of firms in Arsi, Ethiopia?
2. What are the challenges of investment across the Supply Chain of firms in Arsi, Ethiopia?
3. Which of the Supply Chain opportunities and challenges affect investor's perception more significantly?

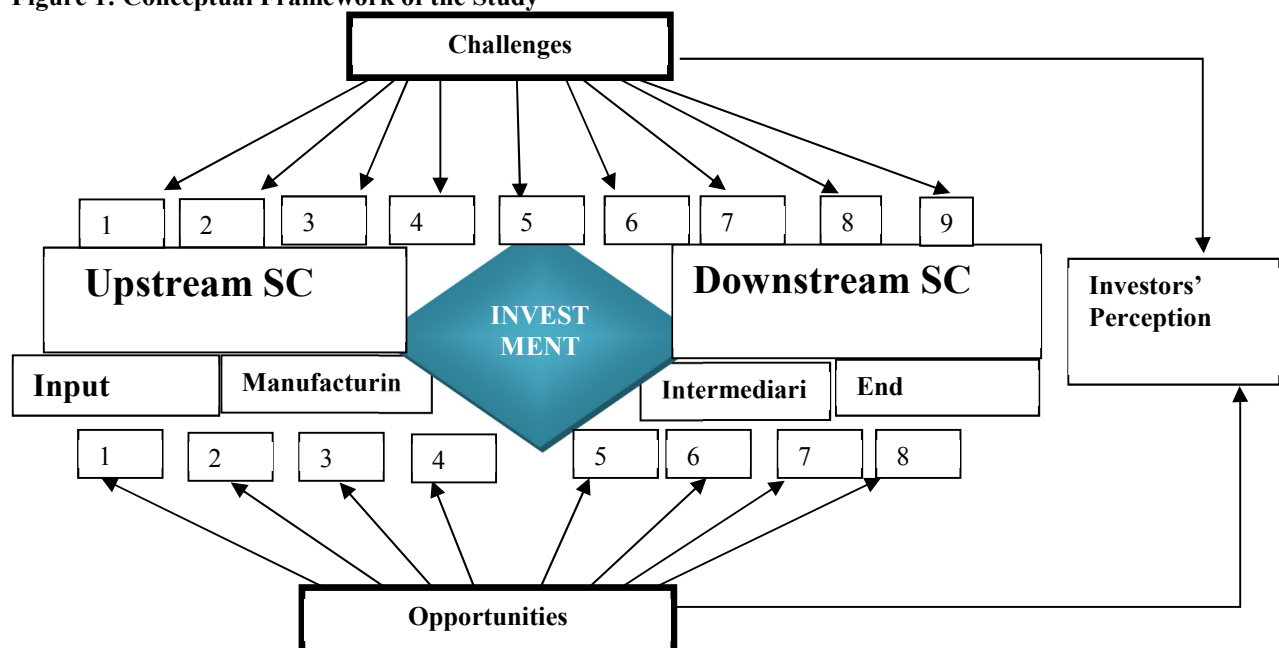
1.3 Empirical Review

The general investment opportunities and challenges along a Supply Chain are discussed in the empirical literature. An important link is created among opportunities, challenges, attractiveness and perception of investors. The researchers developed the following conceptual framework, based on the theoretical and empirical review made so far. According to the framework, investment is distilled out of opportunities and challenges as perceived by the investors. A particular area or country would have huge investment potential, but unless perceived positively by investors, attraction strategies would not meet the target. If investors perceive the challenges prevailing in the area as chronic and blocking they wouldn't put the area in the shortlist.

Likewise, identifying investment opportunities alone does not bring change, unless we know how they are perceived by the investors. Extant literatures were reviewed to capture the conceptual structure of the study (US Department of State, 2015), (EY's, 2015), (FAO, 2011), (GIIN, 2015), (Tiwari P, 2015), (Tiwari P, 2015); (GIIN, 2015); (EY's, 2015), Deloitte & Touche (2016) and (CSA, 2016), (GIIN, 2015), and (Department of State, 2014), (World Economic Forum 2010), (Ethiopian Investment Agency, 2013), (Songwe V and Deininger K, 2009), (Monitor Group, 2012), (Gary Johns, 2009), (Alan Saks and Gary Johns, 2009), Income Tax Proclamation (GIIN, 2015), (Department of State, 2014), (Songwe V and Deininger K, 2009).

The literature indicated us major challenges including (1) lack of skilled labor (2) logistical infrastructure, (3) in accessible finance, (4) electricity and telecom infrastructure, (5) shortage of foreign exchange and inflation, (6) entrepreneurial orientation, (7) limited ecosystem players, (8) regulatory and policy, and (9) corruption and political violence. Similarly, the opportunities are (1) large local and regional market size, (2) proximity to international market (3) abundant labor force, political stability, (4) high raw material resource, (5) investment incentives, (6) land available, (7) expansion of local international industries, and (8) regulatory and policy. Optimism and fear are central determinants of individual investors' trading and risk-taking behavior, but what makes investors optimistic or afraid? This is an important question, because individual investor behavior affects asset prices (Lee, Shleifer, and Thaler 1991; Hirshleifer 2001; Kumar and Lee 2006; Kogan et al. 2006; Barber, Odean, and Zhu 2009), return volatility (Foucault, Sraer, and Thesmar 2011), and even the macro-economy (Korniotis and Kumar 2011a). various research outputs conducted a comprehensive field study to examine how individual investors update their optimism (return expectations) and fear (risk tolerance and risk perceptions) in response to individual return and risk experiences. According to (Arvid O. I. Hoffmann, Thomas Post, 2013), investors' past returns positively impact their return expectations and risk tolerance, and negatively impact their risk perceptions.

Figure 1: Conceptual Framework of the Study



Source: (Compiled By the researchers, 2018)

1.4 Research Methodology

The purpose of this study was to identify salient opportunities and challenges of investment; and their impact on investors' perception of the study area. It focused on manufacturing, agro-industry and agricultural investment operations in Arsi. Explanatory research design was used along with primary and secondary source of data gathered via questionnaire, Focus Group Discussion and interview. A combination of sampling techniques (cluster, purposive and random) and data analysis tools including Explanatory Factor Analysis and Multi variant linear regression were utilized. The Research team has applied Factor Analysis techniques, specifically Principal Component Analysis, Rotated Component matrix coefficient, and factor loading. The research team has conducted survey 165 firms and 213 and 50 respondents of different organizations in the object of study in Arsi Zone, Oromia Regional State. Sample size was 213 investors (along with interview, and focus group discussion with government and supporting office holders). The process of survey was conducted through questionnaire designed according to 5 measurement scales with the Likert measurement scale (5-level).

2. Data Presentation, Analysis and Interpretation

2.1 Validity and Reliability of the Data

Totally, 161 questionnaires were filled and returned out of 165 distributed to industries; and 43 out of 48 questionnaires distributed to government and supporting offices were returned showing response rate of 97 % and 89.5 %, respectively. Twenty questionnaires were filled by selected firms to check the validity of the instrument as a pilot study, and it is after certain adjustments that the final questionnaire is developed.

Reliability test is made using reliability statistics of Cronbach's Alpha which resulted in an acceptable level, 0.685.

Table 1: Reliability Statistics Case Processing Summary

Processing Summary		N	%
Cases	Valid	98	60.9
	Excluded ^a	63	39.1
	Total	161	100.0
	Cronbach's Alpha	92	.685

Source: (Researchers' Survey, 2009)

2.2 Explanatory Factor Analysis

Exploratory Factor Analysis (EFA) was performed on basic themes of the research: opportunities, challenges, and perceptions of investors.

Testing the suitability of EFA

The test of sampling adequacy is made and KMO = 0.723 satisfying the condition: $0.5 < KMO < 1$. Therefore, exploratory factor analysis is appropriate to the actual data. *Correlation test of the observed variables in the representative measure scales.*

Table 2: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.723
Bartlett's Test of Sphericity	Approx. Chi-Square	216.946
	Df	6
	Sig.	.000

Source: (Researchers' Survey, 2009)

2.2.1 Performing EFA on Opportunities

Testing impact level of the observed variables to factors

Column Cumulative shows that the value of variance extracted is **88.71%**. This means that **88.71%** of the change of factors was explained by the observed variables (components of the factors). Based on the (eigenvalues > 1) 4 factors have explained 88.71% of the total variance.

Table 3: Total Variance Explained On Investment Opportunities

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumul %	Total	% of Variance	Cumulative %
1	7.068	33.657	33.657	7.06	33.657	33.657	5.97	28.454	28.454
2	5.086	24.220	57.877	5.08	24.220	57.877	4.48	21.374	49.828
3	4.282	20.392	78.270	4.28	20.392	78.270	4.30	20.514	70.342
4	3.427	16.321	94.590	3.42	16.321	94.590	3.85	18.370	88.712

Source: (Researchers' Survey, 2009)

Thus, through testing the quality of measurement scale and tests of EFA model, we identified 4 scales and

11 specific variables. Therefore, based on the total variance explained by the components, and Coefficient of loading factors, the results were summarized below in ascending order based on percentage of variance explained.

Results of the EFA model of Investment Opportunities

The results of EFA are shown above in the Rotated component Matrix. This result showed that certain variables have loading factor coefficients greater than 0.55.

According to the EFA model result; there are variables with loading factor coefficient less than 0.55 which entails that they are not capable of attracting investors' attention. Thus, variables with loading factor coefficient greater than 0.55 are categorized under 4 representative factors affecting the suitability of Arsi Zone to investors with variables of factors which are rearranged differently from the original theoretical and empirical models.

Accordingly, component 1 which includes variables: M-OPP5, M-OPP6, M-OPP8, is named M-OPP (Market Opportunity). Component 2 includes variables: T_OPP13, T_OPP16, was named T_OPP (Transport Opportunity). Component 3 which includes variables E-BC9, E-BC10, E-BC11, and E-BC12, is named E_BC (External Business and Community Opportunity). Component 4 which includes variables: L-OPP1, L-OPP2, is named L-OPP (Labor Opportunity).

Table 4: EFA Determined Investment Opportunities

Factors	Measure Scale	%Variance	Variables	Explanation of scale
1	M-OPP	28%	M-OPP5, M-OPP6, M-OPP8	Market Opportunity
2	T-OPP	21%	T-OPP13, T-OPP16	Transport Opportunity
3	E-BC	20%	E-BC9, E-BC10, E-BC11, E-BC12	External Business
4	L-OPP	18%	L-OPP1, L-OPP2	Labor Opportunity

Source: (Researchers' Survey, 2009)

As we can see above majority- 28% of variance is explained by market opportunity which is followed by transport opportunity explaining 21% of variance. Under marketing opportunity, the salient variables contributed are large domestic market size, potential to export and direct market access. Transport opportunity variables are limited to availability and less seasonal effect. External community and labor opportunity are the list explained variance 20% and 18%, respectively. Factors with largest percent of variance (88.71%) are consistent with the extant literatures, interview and FGD results. In line the SC, the input and the end consumer parts are more opportunistic.

2.2.2 Performing Exploratory Factor Analysis (EFA) on Challenges

Testing impact level of the observed variables to factors

Column Cumulative shows that the value of variance extracted is 89.47%. This means that 89.47% of the change of factors was explained by the observed variables (components of the factors). Based on the (eigenvalues > 1) 5 factors have explained 89.47% of the total variance.

Table 5: Total Variance Explained On Investment Challenges

Component	Total Variance Explained								
	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.734	41.591	41.591	8.734	41.591	41.591	7.980	38.000	38.000
2	5.844	27.827	69.418	5.844	27.827	69.418	4.798	22.850	60.850
3	4.655	12.168	81.585	4.655	12.168	81.585	4.500	11.431	82.280
4	2.067	5.415	86.730	2.067	5.415	86.730	3.721	5.720	87.208
5	1.015	4.270	90.00	2.015	4.270	90.000	1.015	2.270	89.478

Extraction Method: Principal Component Analysis.

Source: (Researchers' Survey, 2009)

Results of the EFA model of Investment Challenges

The results of EFA are shown in the Rotated component Matrix above. This result showed that all variables have loading factor coefficients greater than 0.55. Variables having loading factor coefficient less than 0.55 are assumed to have less effect in challenging investors. Thus, according to the EFA model result, there are 5 representative factors affecting the suitability of Arsi Zone to investors with variables of factors which are rearranged differently from the original theoretical and empirical model.

Component 1 which includes variables: I-CHA5, I-CHA6, I-CHA7. This component is named I-CHA (Infrastructural Challenge). Component 2 includes variables: L-CHA8, L-CHA10, L-CHA11, was named L_CHA (Labor Challenge). Component 3 includes variables: G_CHA14, G_CHA15, G_CHA16, G_CHA18 was named G_CHA (Governance Challenge). Component 4 which includes variables: F-CHA1, F-CHA2, F-CHA3, F-CHA4 is named F-CHA (Financial Challenge). Component 5 which includes variables: C-CHA19, C-CHA20, C-CHA22, C-CHA23 which is named C-CHA (Community Related Challenges).

Thus, through testing the quality of measurement scale and tests of EFA model, we identified 5 scales 18

specific variables. Therefore, based on the total variance explained by the components, and Coefficient of loading factors, the results were summarized below in ascending order based on percentage of variance explained.

Table 6: EFA Determined Investment Challenges

Factors	Measurement scale	% Variance Explained	Variables	Explanation of scale
1	I-CHA	38%	I-CHA5, I-CHA6, I-CHA7,	Infrastructural Challenge
2	L-CHA	22%	L-CHA8, L-CHA10, L-CHA11,	Labor Challenge
3	G CHA	11%	G CHA14, G CHA15, G CHA16, G CHA18	Governance challenge
4	F-CHA	5%	F-CHA1, F-CHA2, F-CHA3,	Financial Challenge
5	C-CHA	2%	C-CHA19, C-CHA20, C-CHA22, C-CHA23	Community Challenge

Source: (Researchers' Survey, 2009)

2.2.3 Performing Exploratory Factor Analysis (EFA) on Community Related Factors

Testing impact level of the observed variables to factors

Column Cumulative shows that the value of variance extracted is 78.1%. This means that 78.1% of the change of factors was explained by the observed variables (components of the factors). Based on the (eigenvalues > 1) 2 factors have explained 78.1% of the total variance.

Table 7: Total Variance Explained On Investors' Perceptual Factors

Component	Total Variance Explained								
	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.706	54.118	54.118	2.706	54.118	54.118	2.106	42.111	42.111
2	1.199	23.982	78.100	1.199	23.982	78.100	1.799	35.989	78.100

Extraction Method: Principal Component Analysis.

Source: (Researchers' Survey, 2009)

Results of the EFA model of Investment Potential and Community Related Factors

The results of EFA are shown in the Rotated component Matrix. This result showed that all variables have loading factor coefficients greater than 0.55. There are 2 representative factors affecting the Investors' Perception to Arsi Zone with variables of factors which are rearranged differently from the original theoretical and empirical models

Component 1 which includes variables: I-CR1, I-CR2, I-CR3, I-CR4, I-CR7 is named I-CRF (Community related factors). Component 2 includes variables: I-PF9, I-PF12, I-PF14, I-PF16. This component is named I-PF (Investment Potential Factors).

Thus, through testing the quality of measurement scale and tests of EFA model, we identified 2 scales and 9 specific variables. The results were summed as following:

Table 8: EFA Determined Community Related Factors

Factors	Measurement scale	% Variance Explained	Variables	Explanation of scale
1	I-CR	42%	I-CR1, I-CR2, I-CR3, I-CR4, I-CR7	Community Related Factors
2	I-PF	35%	I-PF9, I-PF12, I-PF14, I-PF16	Investment Potential Factors

According to the EFA model result, investors' perception of the community is explained by considerate community to safeguard firm, commercial convenience of local culture, and sociability of the community to establish a positive relationship. Similarly, investors and firm managers give more emphasis to get the acceptance of the community via ensuring community benefits and reducing investment externalities. Since recently, investors believe that the attitudes and feeling of the community towards their firm is spoiled. From cultural perspectives, investors belief that the local culture is convenient to perform any kind of commercial activities.

Thus, consistently EFA, interview, and literatures have identified basic factors that affect investors perception: investment potential factors including alternative investment, growth potential of investments and accessibility of sites. Similarly, community related factors having high factor loading includes: community sense of ownership, cultural convenience, and socialization matters.

2.2.4 Performing Exploratory Factor Analysis (EFA) on Investment Office Challenges

Results of the EFA model of Investment Office Challenges

The results of exploratory factor analysis showed variables having loading factor coefficients greater than 0.55. Similarly, variables having loading factor coefficients less than 0.55 are assumed to have no effect on investors' perception of opportunities, challenges and the community. There are 3 representative factors affecting the

Investors' Perception of Arsi Zone.

Testing impact level of the observed variables to factors

Column Cumulative shows that the value of variance extracted is 91.1%. This means that 91.1% of the change of factors was explained by the observed variables (components of the factors). Based on the (eigenvalues > 1) 3 factors have explained 91.1% of the total variance.

Table 9: Total Variance Explained On Investment Office Challenges

Component	Total Variance Explained								
	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.905	36.317	36.317	2.905	36.317	36.317	2.84	35.562	35.562
2	2.691	33.642	69.959	2.691	33.642	69.959	2.41	30.225	65.787
3	1.698	21.231	91.190	1.698	21.231	91.190	2.03	25.403	91.190

Extraction Method: Principal Component Analysis.

Source: (Researchers' Survey, 2009)

Component 1 which includes variables: I-BE2, I-BE3, I-BE4, I-BE5, is named I-BEH (Investors' Behavior). Component 2 includes variables: I-OR14, I-OR15, I-OR16, I-OR17, I-OR18, I-OR19, I-OR20, I-OR21. This component is named I-OR (Investors' Orientation). Component 3 is consisting of variables: I-OF7, I-OF8, I-OF9, I-OF10, I-OF12 is named I-OFC (Investment Offices' Requirements). Thus, through testing the quality of measurement scale and tests of EFA model, we identified 3 scales and 17 specific variables. The results were summarized below in ascending order of percentage of variance explained:

Table 10: EFA Determined Investment Office Challenges

Factors	Measure Scale	Variance Explained	Variables	Explanation of scale
1	I-BE	35%	I-BE2, I-BE3, I-BE4, I-BE5,	Investors' Behavior
2	I-OR	30%	I-OR7, I-OR14, I-OR15, I-OR16, I-OR17, I-OR18, I-OR20, I-OR21,	Investors' Orientation
3	I-OF	25%	, I-OF8, I-OF9, I-OF10, I-OF12,	Investment Office Requirements

Source: (Researchers' Survey, 2009)

2.3 Summary of Factors

Depending on the EFA factor loading score of 0.55 and above, the general opportunities and challenges along with specific factors are summarized in the following table. In addition, EFA model classified factors that affect investors' perception specific to the community, investment and investors behavior.

Table 11: Summary of Factors

S/N	Factors	% of Variance Explained	Variables	Explanation of the Factors
1	M-OPP	28%	M-OPP5, M-OPP6, M-OPP8	Market Opportunity
2	T-OPP	21%	T-OPP13, T-OPP16	Transport Opportunity
3	E-BC	20%	E-BC9, E-BC10, E-BC11, E-BC12	Business & community
4	L-OPP	18%	L-OPP1, L-OPP2	Labor Opportunity
5	I-CHA	38%	I-CHA5, I-CHA6, I-CHA7,	Infrastructural Challenge
6	L-CHA	22%	L-CHA8, L-CHA10, L-CHA11,	Labor Challenge
7	G_CHA	11%	G_CHA14, G_CHA15, G_CHA16, G_CHA18	Governance challenge
8	F-CHA	5%	F-CHA1, F-CHA2, F-CHA3,	Financial Challenge
9	C-CHA	2%	C-CHA19, C-CHA20, C-CHA22, C-CHA23	Community Challenge
10	I-CR	42%	I-CR1, I-CR2, I-CR3, I-CR4, I-CR7	Community Related Factors
11	I-PF	35%	I-PF9, I-PF12, I-PF14, I-PF16	Investment Potential Factors
12	I-BE	35%	I-BE2, I-BE3, I-BE4, I-BE5,	Investors' Behavior
13	I-ORI	30%	I-OR7, I-OR14, I-OR15, I-OR16, I-OR17, I-OR18, I-OR20, I-OR21,	Investors' Orientation
14	I-OFC	25%	I-OF8, I-OF9, I-OF10, I-OF12,	Investment Office Requirement

Source: (Researchers' Survey, 2009)

From each opportunity, challenges and specific factors selected indicators which have factor loading of 0.900 and above were considered for regression analysis.

3. Regression Analysis

The general Analysis was made on Investment Opportunities and challenges. Investment opportunities are categorized into four factors, namely: Market, Transport, External Business & community, and Labor Opportunity. Similarly, investment challenges are categorized into five factors, specifically: Infrastructural, Labor, Governance, Financial, Investor and Community related Challenge. And the association of these factors and investors' perception of the area under investigation was analyzed based on regression model.

3.1 Testing of regression coefficient

Generalized regression model which is adjusted after analyzing exploratory factors is:

$F_PER = f(L_OPP1, M_OPP5, T_OPP13, I_OCP2, I_OCP7, I_OCP3, I_OCP9, I_CP11, I_CP16, G_CHA19, G_CHA18, I_CHA6, L_CHA11, L_CHA10, I_BE4, I_OF8, I_OR14)$

Examining each factor and finding out which factors affecting directly the investors' perception is implemented by the linear regression equation of the following:

$F_PER = b_0 + b_1 * L_OPP1 + b_1 * M_OPP5 + b_2 * T_OPP13 + b_3 * I_OCP2 + b_4 * I_OCP7 + b_5 * I_OCP3 + b_6 * I_OCP9 + b_7 * I_CP11 + b_8 * I_CP16 + b_9 * G_CHA19 + b_{10} * G_CHA18 + b_{11} * I_CHA6 + b_{12} * E_BC9 + b_{13} * L_CHA11 + b_{14} * L_CHA10 + b_{15} * I_BE4 + b_{16} * I_OF8 + b_{17} * I_OR14 + e_i$

The variables included in the regression analysis were determined by calculating score of the factors (Factor score). In Table 12 below, Bartlett's Test has Sig. < 0.05, this means that observed variables are linearly correlated with representative factors.

Table 12: Coefficients of the Regression Analysis

Coefficients ^a 95.0% Confidence Interval for B							
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
		B	Std. rror	Beta			
	(Constant)	.839	.248		3.38	.001	
1	L-OPP1	.070	.087	.804	16.3	.000	
2	M-OPP5	.059	.150	.216	3.73	.000	
3	T-OPP13	.012	.124	.321	2.50	.013	
4	I-PF12	.054	.035	.332	7.33	.000	
5	I-CHA6	.179	.039	.668	14.7	.000	
6	I-OCP2	.010	.017	.234	5.99	.000	
7	I-OCP7	.057	.017	.366	9.20	.061	
8	G-CHA19	.073	.021	.709	17.7	.000	
9	E-BC9	.079	.039	.668	14.7	.004	
10	L-CHA11	.054	.035	.332	7.33	.052	
11	L-CHA10	.079	.039	.668	14.7	.000	
12	G-CHA18	.057	.017	.366	9.20	.000	
13	I-CP16	.073	.021	.709	17.7	.000	
14	I-OCP9	.021	.124	.321	2.50	.012	
15	I-OCP3	.054	.035	.332	7.33	.000	
16	I-BE4	.079	.039	.668	14.7	.062	
17	I-OF8	.057	.017	.366	9.20	.000	
18	I-OR14	.012	.124	.321	2.50	.053	

Source: (Researchers' Survey, 2009)

Dependent Variable: Investors Perception

Table 12 indicates that there are fourteen variables that have statistical significance with reliability greater than 95% (Sig. < 0.05), including: L-OPP1, M-OPP5, T-OPP13, I-OCP2, I-OCP3, I-OCP9, I-CP16, E-BC9, G-CHA19, G-CHA18, I-CHA6, F-CHA2, L-CHA10. The test of suitability of the model such as multicollinearity phenomenon, autocorrelation phenomenon found that there is no violation at all.

Table 13: Model Summary of the Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.848 ^a	.719	.715	.19692

b. Dependent Variable: Investors Perception

Source: (Researchers' Survey, 2009)

In Table 13, Adjusted R Square is 0.715, shows that 71.5.0% of the change in perception of investors is explained by the independent variables included.

Testing the suitability level of model

Table 14: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.674	2	7.837	202.095	.000 ^b
	Residual	6.127	158	.039		
	Total	21.801	160			

a. Dependent Variable: Investment perception

Source: (Researchers' Survey, 2009)

Shown in the Table 14, Sig.<0.05, thus, it can be concluded that the model is in accordance with the actual data. In other words, the independent variables are correlated linearly with the dependent variable and the confidence level is 95%. In summary, through inspection of regression model, variables which have statistically significant include: Skilled labor available L-OPP1, large market size M-OPP5, Transportation service T-OPP13, Commercial convenience of local culture I-OCP2, community sense of ownership I-OCP3, Availability of raw material-E-BC9, Un utilized investment alternatives I-OCP9, accessibility of investment sites I-CP12, Investment growth potential I-CP16, vulnerability to risks of social unrest G-CHA19, Proper integration & policy implementation G-CHA18, power interruption I-CHA6, employees committed L-CHA10, and Priority to manufacturing –I-OF8.

3.2 Discussing the Regression Result

Regression coefficients which are not standardized

The coefficients (B) indicate the magnitude of change in investors' perception as result of change in the independent variables included in the model either positively or negatively.

Standardized regression coefficients

This coefficient expresses influential percentage of independent variables. Regression coefficients which are not standardized can be modified in percentage form as followings:

Table 23: Standardized regression coefficients converted to percentage

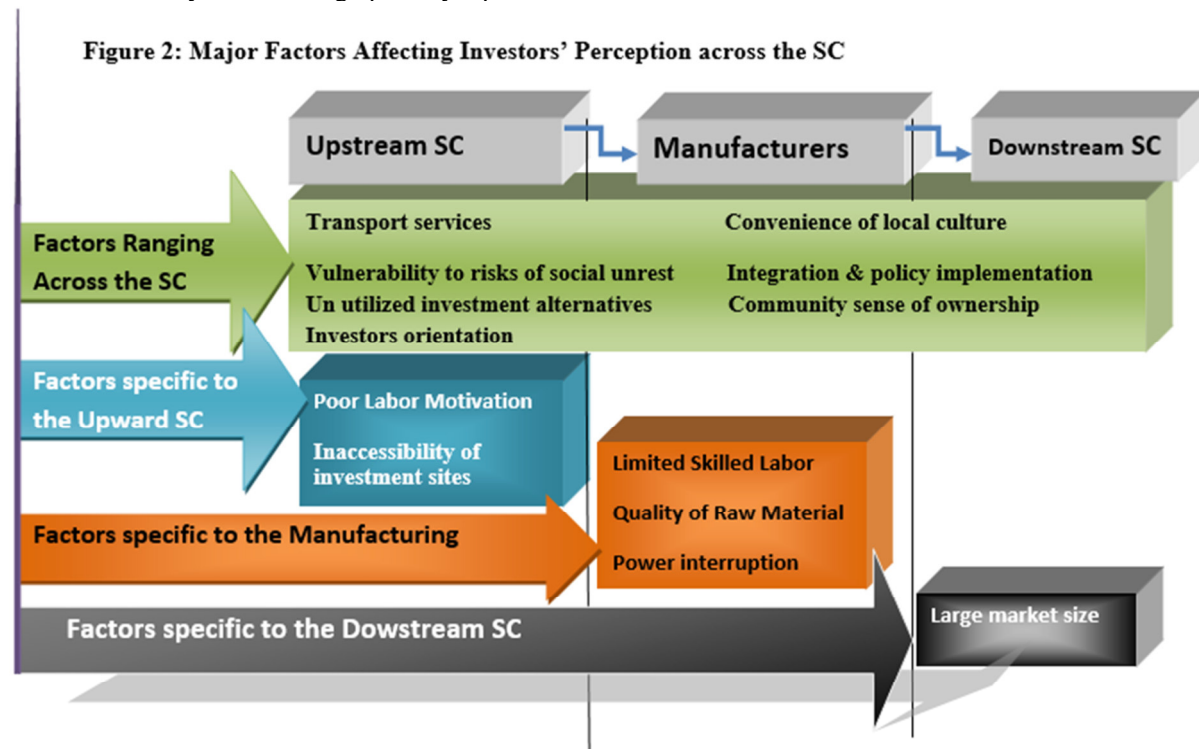
Model		Absolute Value	Percentage (%)
1	L-OPP1	.070	8.0
2	M-OPP5	.059	5.9
3	T-OPP13	.012	1.4
4	I-PF12	.054	6.2
5	I-CHA6	.179	2.0
6	I-OCP2	.010	1.1
8	G-CHA19	.073	8.3
9	E-BC9	.079	9.0
11	L-CHA10	.079	9.0
12	G-CHA18	.057	6.5
13	I-CP16	.073	8.3
14	I-OCP9	.021	2.4
15	I-OCP3	.054	6.2
17	I-OF8	.057	6.5
	Total	0.877	87.7%

Source: (Researchers' Survey, 2009)

The percentage contribution of each of the above variables indicates the level of influence they have on investors' perception of the study area. To this end, Availability of raw material and employees commitment level are the major influential factors each contributing 9%. Whereas, skilled labor availability, vulnerability to risks of social unrest, and investments' growth potential have contributed 8% each. Accessibility of investment sites, Integration& policy implementation, community sense of ownership, and Priority to manufacturing have contributed nearly 6% each.

Finally, the major factors associated with investors' perception of the study area are long ranging from the very Upstream to the downstream Supply Chain. This indicates any investor who engages in investment at any point in the Supply Chain (SC) would face similar challenges and opportunities. In addition to the common opportunities and challenges, each stream of the Supply Chain that may fall in different category of sectors has peculiar challenges. Meaning, Agricultural investors in the upstream SC would have peculiar challenges and opportunities to their stream. Similarly, investors engaged in manufacturing and retail business in the downstream SC have their own challenges and opportunities specific to their stream. If investors face similar challenges in all the Supply Chain, they tend to concentrate in the downstream SC as usually we observe since

the inherent nature of the business is easier. Thus, opportunities and challenges of investment Across a Supply Chain of the study area can be graphically represented as follows:



4. Conclusion and Recommendation

4.1 Conclusions

Generally, in this study a conceptual framework was developed from available extant literatures where most of the variables included were national and common opportunities and challenges. However, the result of the study has characterized these opportunities and challenges into two: national those are consistent with conceptual framework and local those are specific to the study area.

The common opportunities are found to be large market size, locational proximity, availability of input, and possibility of socialization. Unique to the study area, possibility of direct marketing channel and availability of skilled labor force have scored high factor loading as an opportunity in eyes of the investors.

The common challenges consistent with the conceptual framework were basic infrastructure, labor, governance, finance and political related matters. Nevertheless, the indicators of these major factors are unique from the national literature. Accordingly, investment challenges of Arsi Zone are more specific than the national literatures, especially labor a bidirectional challenge: labor side-work culture and investor side- poor wage structure, finance (high interest rate), governance (poor policy implementation, insubordination and uncoordinated office), inconsiderate investor and community. In addition, it is addressed that disorganized, unresponsive and poorly implemented investment policy as common challenge for all kind of investors do exist. Particular to the study area, the pillar government offices namely investment, land administration and infrastructural factors are disintegrated, independent and unsubordinated to each other. On the other hand, community-investor relationships are spoiled due to absence of considerate investor and community outlook to each other.

Investment Challenges of the study area are also associated with the investment office capability in managing the behaviors of investors which is explained by our EFA model: operationalizing within grace period, trends of speculative conduct and not respecting investment regulations. Thus, investment office lacks decision making authority whereas investors exhibit speculative behavior along with short term orientation and conventional operation similar to the local farmers' operation. Consequently, investors lack grace and couldn't be role model to the local farmers. As a result, the local community regrets for leaving its land in the name of investment which is not different from their operation.

Furthermore, the behavior and entrepreneurial orientation of investors directly affects their perception level. In this research, manufacturing oriented firms have stronger positive perception unlike the conventional investors which received myriad complain and defamed their image which further resulted in dissatisfaction leading to negative perception to the study area.

Eventually, Availability of raw material and employees commitment level, skilled labor availability,

vulnerability to social unrest, investments growth potential, accessibility of investment sites, integration & policy implementation, community sense of ownership, and priority to manufacturing are among the major influential factors that affect the perception of investors in the study area under investigation.

The salient factors have effect ranging across the SC nearly with similar magnitude which means investors engaged at any point in the SC would have similar challenges and opportunities. Probably, this may contribute to why most of investors are concentrating at the downstream part of the SC. Therefore, an integrated and comprehensive approach is required to enhance the positive perception of investors and thereby attract more value creating investors.

4.2 Recommendation

Based on the results of the discussions of interview, FGD and statistical outputs, researchers would like to forward the following core recommendations:

- ✚ Among myriad opportunities considered by the researchers and investment office only availability of raw material, skilled labor, alternative investment along with growth potential and market size are the most influencing factors demanding the attention of concerned body. Therefore, to get a positive perception of the investor regarding opportunities, the investment office should work on preparing diversified investment sites focusing on investment types convenient for raw material and market access. In addition, revealing the cultural convenience of the local community would result in a positive perception of investors.
- ✚ Arsi investment office should work on labor commitment/motivation level, vulnerability to risks of social unrest, accessibility of investment sites, disintegrated policy implementation, community sense of ownership, and shaping the conventional orientation and behavior of investors. More specifically, a winning strategic orientation is required to build positive relationship between the investor and the labor force via shared benefit and socialization strategies and corporate social responsibility since committed and motivated labor is a pillar to develop investors' positive perception towards the study area.
- ✚ Arsi and Oromia Regional States should work to capacitate Investment Office to the level of decision making authority. This in turn, harnesses the action to be taken to correct the exhibited speculative behaviors, short term orientation and conventional operation similar to the local farmers' operation which disgraced investors in the eyes of the community. This would have positive repercussion of boosting the role of investors in sharing experience and ensuring the community benefits from investment which further build a strong sense of belongingness of investments by the community. In other words, ensuring the benefit of the community, surpassing local farmers' experience and innovative farming would develop the sense of ownership of investments among the community that eventually eliminates the risk of social unrest.
- ✚ Arsi Investment Office should filter investors from the very instance based on their modernized and innovative capability to shape their orientation so that they wouldn't be in contradiction with regulations and contractual obligations which finally distort their perception of the investment of the zone.

References

- Mahnaz Malik, (2008). Recent Developments in the Definition of Investment in International Investment Agreements, International Institute for Sustainable Development, Second Annual Forum of Developing Country Investment Negotiators, 3-4, Marrakech, Morocco
- Levišauskaite Kristina (2010). Investment Analysis and Portfolio Management LEONARDO DA VINCI Transfer of Innovation, Vytautas Magnus University Kaunas, Lithuania.
- COMESA (2007), The twelfth Summit of Authority of Heads of State and Government, held in Nairobi, Kenya, on 22nd and 23rd May, adopted the (CCIA).
- Vanguard (2015) Asset Management, Investment fundamentals An introduction to the basic concepts of investing, Limited UK
- World Economic Forum, (2010) The Global Competitiveness Report 2010–2011. Geneva.
- UNCTAD, (2011) Series on Issues in International Investment Agreements II, UNITED NATIONS, New York and Geneva,
- UNCTAD,(2008) Latest developments in investor-State dispute Settlement IIA MONITOR No.1
- Global Impact Investors Network (GIIN), (2015), THE LANDSCAPE FOR IMPACT INVESTING IN EAST AFRICA, ETHIOPIA
- U.S. Department of State, *Department of State, (2014) Investment Climate Statement available at* <http://www.state.gov/documents/organization/228594.pdf>.
- Business Opportunities in Ethiopia (2011) Geneva International Conference Centre

- Ethiopian Investment Commission, (2014), Highlights of Investment Opportunities and Conditions in Ethiopia November, available at Website: www.investethiopia.gov.et
- Ethiopian Investment Agency (2013); Invest in Ethiopia: An investment guide to Ethiopia Opportunities and Conditions
- Tiwari Prateeksha (2015), Indian and Chinese FDI in Ethiopia: Nature, Impact, and Challenges, Volume 1, Issue 3 pp 124-143, 2015, Department of East Asian Studies, University of Delhi, Delhi, 110007
- Songwe V and Deininger K, (2009) Foreign Investment in Agricultural Production: Opportunities and Challenges, ISSUE 45
- U.S. Department of State, (2015) Ethiopia, Investment Climate Statement | May 2015
- Monitor Group (2012) Ethiopia's Private Sector Action Plan for Agricultural Development, Private Sector Action Plan, USAID, ATA.
- Deloitte & Touche (2016) Ethiopia Economic Outlook, The Story Behind the Numbers
- Karlsson Jesper (2014) Challenges and opportunities of foreign investment in developing country agriculture for sustainable development, tFAO Commodity and Trade Policy Research Working Paper No. 48, Economic and Social Development Department
- Barton Legum (2005) Defining Investment and Investor: Who Is Entitled to Claim? *SYMPOSIUM CO-ORGANISED BY ICSID, OECD AND UNCTAD*, Making The Most Of International Investment Agreements: A COMMON AGENDA, *OECD, Paris*
- Ime T. Akpan (2013), Harnessing the available Investment Opportunities for Sustainable Enterprise Development: An assessment of the Entrepreneurial Capacity of Citizens of Akwa Ibom State, *International Journal of Business and Management Invention ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X www.ijbmi.org Volume 2 Issue 7| July. 2013| PP.26-33*
- Arvid O. I. Hoffmann, and Thomas Post (2013): What Makes Investors Optimistic, What Makes Them Afraid?
- U.S. Department of State, (2014), Investment Climate Statement, available at <http://www.state.gov/documents/organization/228594.pdf>
- National Planning Commission, (2016), Growth and Transformation Plan II (GTP II) Federal Democratic Republic of Ethiopia, (2015/16-2019/20) Volume I: Addis Ababa
- Moorhead Gregory and Griffin Ricky W. (2010), Organizational Behaviour: Managing People and Organizations, 9th edition, SouthWestern Cengage Learning.
- Dimitrios Maditinos, Zeljko Sevic, and Nikolaos Theriou, (2004): Users' perceptions and investment strategies employed in Athen's Stock Exchange: 2nd International Conference on Accounting and Finance in Transition (ICAFT).
- Moorhead Gregory and Griffin Ricky W. (2010), Organizational Behaviour: Managing People and Organizations, 9th edition, SouthWestern Cengage Learning.
- Arvid O.I. Hoffmann, Thomas Post, Joost M.E. Pennings (2012). Individual investor perceptions and behavior during the financial crisis: Journal of Banking & Finance
- OECD (1996) Negotiating Group on the Multilateral Agreement on Investment (MAI) website: www.oecd.org/daf/investment
- World Bank (2015), <http://www.doingbusiness.org/data/exploreeconomies/ethiopia/#resolving-insolvency>.
- FAO, (2011), Investment Policy Support: Foreign Agricultural Investment Profile Ethiopia, <http://www.fao.org/tc/policy-support/investment-policy/databases-and-country-profile>.
- Lee, C. M. C., A. Shleifer, and R. H. Thaler (1991), "Investor Sentiment and the Closed-End Fund Puzzle," *Journal of Finance*, 46(1), 75-109.
- Hirshleifer, D. (2001), "Psychology and Asset Pricing," *Journal of Finance*, 56(4), 1533-97.
- Kumar, A. and C. Lee (2006), "Retail Investor Sentiment and Return Comovements," *Journal of Finance*, 61(5), 2451-86.
- Barber, B. M., T. Odean, and N. Zhu (2009), "Do Retail Trades Move Markets?," *Review of Financial Studies*, 22(1), 151-86.
- Foucault, T., D. Sraer, and D. J. Thesmar (2011), "Individual Investors and Volatility," *Journal of Finance*, 66(4), 1369-406.
- Korniotis, G. M. and A. Kumar (2011a), "Do Behavioral Biases Adversely Affect the Macro-Economy?," *Review of Financial Studies*, 24(5), 1513-59.
- Korniotis, G. M. and A. Kumar (2011b), "Do Older Investors Make Better Investment Decisions?," *Review of Economics and Statistics*, 93(1), 244-65.
- Korniotis, G. M. and A. Kumar (2013), "Do Portfolio Distortions Reflect Superior Information or Psychological Biases?," *Journal of Financial and Quantitative Analysis*, forthcoming.
- Hoffmann O. I. Arvid, Post Thomas (2013) *What Makes Investors Optimistic, What Makes Them Afraid?*, February 18, 2013.
- Growth and Transformation Plan (GTP II), (2016), Federal Democratic Republic of Ethiopia, National Planning

Commission, Addis Ababa, Volume I:
East Africa's Rising Giant, Office of the United States Trade Representative, *Foreign Trade Barriers-Ethiopia*, available at http://www.ustr.gov/sites/default/files/Ethiopia_0.pdf.
EY's attractiveness survey, Africa 2015, Making choices, 4th Swiss-African Business Exchange, available at: <http://www.ethiopia.gov.et/English/Pages/Home.aspx>
U.S. (2004) Model Bilateral Investment Treaty, art. 1 (emphasis added), available at <http://www.state.gov/e/eb/rls/othr/38602.htm>.
Stevenson, Jennings (1977), *Fundamentals of Investments*, West Publishing House, New York,.
Dougall, Herbert, E., (1978) *Investments*, 9th ed., Prentice Hall, Englewood, N.J.,
Prasanna Chandra, (2003) *Investment Analysis and Portfolio Management*, Tata McGraw Hill,.
Greene Sean (2014), "A Short Guide to Impact Investing" The Case Foundation's
Sigmar Gabriel, (2015), *The Investment Challenge*, Visit bmwi.bund.de: Federal Minister Economy Watch, (2010), *Nigeria Economy* [Online] Available: www.economywatch.com/
[http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Civil%20Code%20\(English\).pdf](http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Civil%20Code%20(English).pdf) Law governing various types of contracts.
<http://www.erca.gov.et/Proclamation%20No.286-2002.pdf>
<http://www.erca.gov.et/Negarit2.pdf>
<http://www.erca.gov.et/Proclamation%20No.285-2002.pdf>
<http://www.erca.gov.et/Negarit3.pdf>
<http://www.erca.gov.et/proclamation%20no.307-2002.pdf>
http://www.ethiopar.net/type/English/hopre/bills/2004_2005/570.pdf
<http://www.erca.gov.et/Negarit5.pdf>
<http://www.erca.gov.et/proclamation.php>
http://www.ethiopar.net/type/English/hopre/bills/2004_2005/543.ae..pdf
Most recent law governing duty drawback, voucher and bonded manufacturing warehouse incentive schemes.
[http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Maritime%20Code%20\(English\).pdf](http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Maritime%20Code%20(English).pdf)
Regulates sea trade.
[http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Commercial%20Code%20\(English\).pdf](http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Commercial%20Code%20(English).pdf)
https://en.wikipedia.org/wiki/Arsi_Zone
www.TRADINGECONOMIC.COM/ Central Statistics of Ethiopia, 2016